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IDAHO PUBLIC
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LISA D. NORDSTROM
Lead Counsel
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June 5, 2015

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

Re: Case No. IPC-E-15-17
Long Term Program Contract with Siemens Energy, Inc. – Idaho Power
Company's Application and Testimony

Dear Ms. Jewell:

Enclosed for filing in the above matter please find an original and seven (7) copies of Idaho Power Company's **Redacted** Application. An original and seven (7) copies of the **confidential** pages of and the attachment to the Application are provided separately.

In addition, enclosed are an original and eight (8) copies each of the **Redacted** Direct Testimony of Trevor Mahlum and Courtney E. Waites filed in support of the Application. One copy each of the aforementioned testimonies has been designated as the "Reporter's Copy." In addition, a disk containing Word versions of Mr. Mahlum's and Ms. Waites' testimonies is enclosed for the Reporter. An original and seven (7) copies each of the **confidential** pages of Mr. Mahlum's and Ms. Waites' testimonies are provided separately.

Also enclosed is a Protective Agreement Idaho Power Company requests the parties execute in this matter. If the Protective Agreement is satisfactory, please have the attorney assigned to this case execute the same.

If you have any questions about this filing, please do not hesitate to contact me.

Very truly yours,



Lisa D. Nordstrom

LDN:csb
Enclosures

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Attorney for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR AN) CASE NO. IPC-E-15-17
ORDER AUTHORIZING THE APPROVAL)
OF A LONG TERM PROGRAM CONTRACT) **REDACTED APPLICATION**
WITH SIEMENS ENERGY, INC., AND)
DEFERRAL OF ASSOCIATED COSTS.)
_____)

Idaho Power Company ("Idaho Power" or "Company"), in accordance with *Idaho Code* § 61-328, § 61-524 and RP 052, hereby respectfully makes application to the Idaho Public Utilities Commission ("Commission") for an order (1) approving a Long Term Program ("LTP") Contract with Siemens Energy, Inc. ("Siemens"), (2) approving the transfer and sale of certain assets to Siemens pursuant to *Idaho Code* § 61-328, and (3) approving the Company's proposed accounting treatment of costs associated with the LTP Contract. The Company is not requesting to change customer rates at this time.

In support of this Application, Idaho Power represents as follows:

I. INTRODUCTION

1. Idaho Power owns and operates three natural gas-fired facilities: the Langley Gulch combined cycle combustion turbine ("CCCT"), the Danskin simple cycle combustion turbine ("SCCT"), and the Bennett Mountain SCCT. The Langley Gulch plant consists of one 180 megawatt ("MW") Siemens combustion turbine and one 96 MW Siemens reheat steam turbine and is located south of New Plymouth in Payette County, Idaho. Located northwest of Mountain Home, Idaho, the Danskin facility consists of one 169 MW Siemens and two 44 MW Siemens-Westinghouse combustion turbines. The Bennett Mountain plant is located east of the Danskin plant in Mountain Home, Idaho, and consists of one 162 MW Siemens-Westinghouse SCCT.

2. At this time, Idaho Power self-manages its natural gas fleet through a collaborative effort between the Company and the original equipment manufacturer ("OEM"). The Company's OEM for all its combustion turbines is Siemens. Idaho Power's combustion turbines are subject to required maintenance outages at OEM-recommended intervals based upon each plant's primary mode of operation. Based on Idaho Power's historical operating profile, the Danskin and Bennett Mountain SCCTs have maintenance intervals based on the number of plant start-ups and Langley Gulch has a maintenance schedule based on hours of operation. Currently, each maintenance outage has been contracted to Siemens for service on a case-by-case basis.

3. Under the Company's self-management of its gas plants, Idaho Power's current practice is to purchase parts from Siemens in advance of an outage, allowing adequate time for delivery and possession of the parts prior to commencement of the

outage. Upon receipt, the parts are capitalized. During the outage, the existing parts are removed and the replacement parts are installed, resulting in short outage windows and earlier plant availability. The parts that have been removed are retired from Idaho Power's books and sent to Siemens' service shop, where they are inspected and repaired. Once refurbished, the parts (known as "initial spare parts") are returned to the Company, capitalized, and ready for use again. Until the addition of the Langley Gulch CCCT, contracting for gas plant maintenance services with Siemens at each outage interval has been the most cost-effective approach to maintain the Company's gas fleet.

II. LTP CONTRACT

4. During construction of the Langley Gulch plant, Idaho Power began looking at other maintenance options for its gas fleet. The Langley Gulch plant is the Company's only CCCT and employs some of the newest, most technologically advanced parts on the market. Idaho Power recognized that its employees did not have all of the necessary technical skills to maintain all three plants to the level offered by Siemens and reached out to multiple third-party providers of gas plant maintenance as part of a formal request for information process. Idaho Power analyzed the proposals and determined that there are currently no other third-party maintenance providers that could provide services equivalent to those provided under the LTP Contract with Siemens. Because Siemens is the OEM for all of the Company's gas plants and is the industry leader in gas plant maintenance, the only available alternative to the LTP Contract with Siemens would be the continuation of a Company-managed maintenance program with technical support and parts purchased from Siemens.

5. Under the LTP Contract, Siemens will provide scheduled maintenance on all three combustion turbines, including program parts or repairs, shipping, services, labor, engineering services, and program management services. Program parts consist of the major combustion turbine parts provided by Siemens and the parts installed in the combustion turbine upon the effective date, all initial spare parts, and all parts changed during the length of the contract. Some of these program parts are the latest technology that Idaho Power would not otherwise have access to and they are available under the LTP Contract at a [REDACTED] discount from the list price. Siemens will also perform unscheduled maintenance on all three combustion turbines, based on an agreed price list, to the extent such work is not covered by Siemens' other warranties under the contract. Leveraging Siemens' pool of regional inventory, outage resources, and technical expertise will result in lower overall costs to Idaho Power and its customers.

6. The pricing structure under the LTP Contract involves per-unit initiation fees combined with periodic milestone amounts due at or near the actual outage events. Similar to the accounting for work performed by Siemens under the current self-management of maintenance, a portion of the milestone payments will be capitalized and a portion will be operation and maintenance expense. The LTP Contract will provide a lower-priced alternative to the maintenance of the Company's gas plants; Idaho Power estimates the cost to continue with self-management would be approximately \$ [REDACTED] over the life of the contract, while the LTP Contract would cost approximately \$ [REDACTED] over the comparable time period, a savings of \$ [REDACTED] over the life of the agreement.

III. APPROVAL OF THE INITIAL SPARE PARTS TRANSFER

7. With a LTP Contract, the Company has no need for its current inventory of spare parts; Siemens will provide all parts necessary for maintenance and repair of Idaho Power's gas fleet. Under the terms of the LTP Contract, Siemens will take ownership of Idaho Power's inventory of initial spare parts for each combustion turbine, as listed in Exhibit G to the LTP Contract provided as confidential Attachment 1 to this Application, and is expected to remove them from Idaho Power's facilities soon after approval of the LTP Contract. In consideration of the transfer of the initial spare parts to Siemens, the contract price has been reduced to reflect Idaho Power's net book value of the initial spare parts.

8. Pursuant to *Idaho Code* § 61-328, an electric utility must obtain approval from the Commission before it sells or transfers ownership in any generation, transmission, or distribution plant located in Idaho.

Before authorizing the transaction, the public utilities commission shall find: (a) That the transaction is consistent with the public interest; (b) That the cost of and rates for supplying service will not be increased by reason of such transaction; and (c) That the applicant for such acquisition or transfer has the bona fide intent and financial ability to operate and maintain said property in the public service.

Idaho Code § 61-328(3).

9. This transfer of the initial spare parts meets the above-stated requirements of *Idaho Code* § 61-328(3). In addition to the financial benefit of reduced contract costs over the life of the agreement, the transfer and sale of the initial spare parts will allow for the return of spare parts Idaho Power would otherwise no longer use. The demand for these specific spare parts is limited as the parts are no longer the latest

technology and have a limited buyer pool, limiting its market value. During negotiations with Siemens regarding the LTP Contract pricing, Siemens agreed to take back ownership of the initial spare parts in exchange for reduced contract pricing based on the net book value of those parts. As of December 31, 2014, the net book value of the assets that will be transferred to Siemens is approximately \$21.9 million on an Idaho jurisdictional basis. The transfer and sale of the initial spare parts to Siemens is consistent with the public interest and will result in lower overall costs to Idaho Power and its customers. Lastly, Siemens has the *bona fide* intent and financial ability to operate and maintain the initial spare parts in the public service.

IV. PROPOSED ACCOUNTING TREATMENT

10. Idaho Power requests approval of (1) the deferral of the initiation fees to a regulatory asset, (2) the transfer of the net book value of the initial spare parts and associated net tax expense to a regulatory asset, and (3) a carrying charge on a portion of the regulatory asset balance. While the LTP Contract provides significant benefits to customers over the life of the contract, absent the requested accounting treatment, the financial impact to the Company in the first year is considerable, primarily attributable to the initiation fees and the net tax expense. The initiation fees serve as a prepayment toward services that will be performed by Siemens over the life of the agreement. Because the expense is for work performed throughout the duration of the contract, Idaho Power is proposing to establish the initiation fees of \$ [REDACTED] on an Idaho jurisdictional basis as a regulatory asset and amortize that balance, on a straight-line basis, over the length of the contract. The deferral and subsequent amortization of

initiation fees will more closely match the expense recognition with the work being performed.

11. The Company is also requesting to transfer to a regulatory asset the unrecovered portion, or net book value, of \$21.9 million in initial spare parts subject to true-up at closing. The Company also proposes to include in the regulatory asset the deferred taxes that result from the transfer and sale of the initial spare parts. The transfer and sale of the initial spare parts to Siemens will create a net tax expense of approximately \$1.8 million on an Idaho jurisdictional basis. Idaho Power is proposing to amortize both amounts on a straight-line basis over the length of the contract commencing on the execution of the LTP Contract. The deferral and subsequent amortization of the unrecovered portion of the initial spare parts and the net tax expense over the contract life will more closely align the benefits received from the LTP Contract with the costs associated with transfer and sale of the assets.

12. Finally, the Company proposes to accrue a carrying charge on \$ [REDACTED] of the regulatory asset, \$ [REDACTED] in initiation fees and \$2.9 million of the initial spare parts. Because \$2.9 million of the initial spare parts has not yet been included in the Company's authorized rate base and therefore the Company is not currently earning a return on the amounts, Idaho Power is requesting to accrue a carrying charge on that amount using the Company's most recent authorized rate of return.

V. MODIFIED PROCEDURE

13. Idaho Power believes that a hearing is not necessary to consider the issues presented herein and respectfully requests that this Application be processed under Modified Procedure; i.e. by written submissions rather than by hearing. RP 201

et seq. If, however, the Commission determines that a technical hearing is required, the Company stands ready for immediate consideration of its Application and will present the testimony of Power Plant Area Maintenance Leader Trevor Mahlum and Senior Regulatory Analyst Courtney Waites to support the Application in such hearing.

VI. COMMUNICATIONS

14. Communications and service of pleadings, with reference to this Application should be sent to the following:

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Tim Tatum
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VII. REQUEST FOR RELIEF

15. Idaho Power respectfully requests that the Commission issue an order (1) authorizing that this matter may be processed by modified procedure, (2) approving the LTP Contract with Siemens, (3) approving the transfer and sale of the initial spare parts to Siemens pursuant to *Idaho Code* § 61-328, and (4) approving the Company's proposed accounting treatment of costs associated with the LTP Contract.

DATED at Boise, Idaho, this 5th day of June 2015.



LISA D. NORDSTROM
Attorney for Idaho Power Company

VERIFICATION

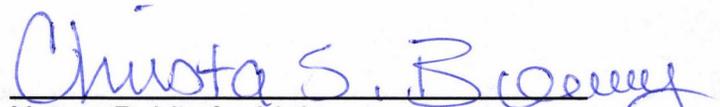
STATE OF IDAHO)
) ss.
County of Ada)

LISA D. NORDSTROM, being duly sworn, deposes and states that she is an attorney for Idaho Power Company, that she has read the foregoing Application and knows the contents thereof, and that the same are true to the best of her knowledge and belief.


LISA D. NORDSTROM

SUBSCRIBED AND SWORN TO before me, a notary public of the state of Idaho,
this 5th day of June 2015.




Notary Public for Idaho
Residing at: Boise, Idaho
My commission expires: 02/04/2021

**BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION**

CASE NO. IPC-E-15-17

IDAHO POWER COMPANY

ATTACHMENT 1

**THE ATTACHMENT IS
CONFIDENTIAL
AND WILL BE PROVIDED
TO THOSE PARTIES THAT
HAVE SIGNED THE
PROTECTIVE
AGREEMENT**